USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

June 29, 1999

The Honorable Collin Peterson
2159 Rayburn House Office Building
Washington, D.C. 20515

Dear Collin:

As hard as I have worked to help dairy farmers weather this decade's extremely volatile milk markets and sustained periods of unusually low prices and as much as I welcome Congress' interest in exploring options to assist this vital part of our agricultural economy, I cannot support the legislation, H. R. 1402, in its current form, that you discussed in your June 4, 1999 letter to me.

I oppose H.R. 1402 because it would prevent the Department of Agriculture (USDA) from proceeding with the reforms and modernization it has developed for the federal milk marketing order system, requiring instead that I implement a price structure USDA referred to as option 1A in fulfilling the mandate Congress wrote into the 1996 farm bill for milk marketing order reform. Enactment of the bill would mean that dairy farmers, as well as processors and consumers, would continue to be saddled with a system that, notwithstanding dramatic changes in the market, industry, consumer preferences, and usage patterns, has remained unchanged for almost fifteen years, prompting virtually all sides of the dairy debate to call for modernization, which USDA has produced.

Notwithstanding my objections to the main provisions of the legislation, I could agree to reassess the manufacturing milk pricing question, providing that the process comports with and does not interfere with USDA's implementation of its reforms of the milk marketing order system.

In addition to being a step backwards in the reform and modernization of federal dairy policy, the bill neither addresses nor can substitute for a meaningful national safety net for dairy farmers, especially given the likelihood of increased price volatility when the price support program expires at the end of this year. I am also concerned about the continued disappearance of small and family sized dairy farmers, which the bill does not adequately address.

USDA's decision on Federal order reform, including the class I milk price structure, reflects a painstaking effort to solicit the views of all interested parties and analyze numerous options. Over the twenty-four month period from passage of the 1996 farm bill through the end of the comment period on the proposed rule, USDA conducted hundreds of informational meetings, requested comments on several reports, and amassed information from a variety of sources on the class I milk price structure under Federal milk marketing orders, including thousands of public comments from dairy farmers, processors, consumers, the academic community, and other interested parties.

This two-year, comprehensive effort led me to conclude that the class I milk price structure embodied in USDA's final decision best reflects current economics of supplying fluid milk markets. Minimum class I prices under Federal orders are not support prices, they exist to ensure there is a sufficient price incentive to supply milk to fluid users. The economic studies USDA used during the rule-making document the many improvements in the assembly and distribution of fluid milk in bulk and packaged form in recent years, increased efficiencies in the assembly and distribution of fluid milk that USDA reflected in its class I price structure on Federal order reform. In contrast, H.R. 1402 would require USDA to ignore more than a decade of change and increased efficiencies.

Instead, the bill imposes a class I price structure that seeks to maintain the status quo and under it, much of the class I price structure would remain unchanged from that imposed by the Food Security Act of 1985. If USDA were required to set minimum class I prices under the provisions of the bill – above levels justified by the economics of moving milk – the result will stimulate milk production causing surpluses, reduce fluid consumption, and thereby reduce the price of milk used in manufactured dairy products.

If the attempt to deny the modernization of Federal milk marketing orders is being justified as an effort to support the incomes of some dairy farmers, I strongly urge Congress instead to address income support through the price support program, not by undermining a program designed to assure the orderly and efficient movement of fluid milk. Even the most effective and modernized milk marketing order system, as USDA has proposed within the guidelines of the statute and within the context of the public comments, cannot and does not substitute for an effective safety net. This question is particularly urgent since the farm bill, in a marked departure from how other major commodities are treated, ends the dairy price support program this year, two years before the rest of the programs expire.

The milk marketing order reform is, as I noted earlier, an important dairy policy question but it alone, especially the regressive provisions of H.R. 1402, does not answer the questions of how to provide an effective dairy safety net. This critical issue must be addressed, along with the accelerating rate of small and family-sized dairy farmers going out of business, leaving us with a diminishing and increasingly concentrated industry.

Thank you for your continued dedication to this nation's farmers and ranchers. As I said, I look forward to working with you and the rest of the House Agriculture Committee in the months ahead to develop sound, effective assistance for dairy farmers.

I am sending similar letters to Chairman Combest and Ranking Member Stenholm.

With best personal regards, I am

Sincerely,

Dan Glickman

DAN GLICKMAN
Secretary